

Message Text

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PAGE 01 TOKYO 11348 01 OF 02 280925Z
ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /109 W
-----111257 280941Z /10

P R 280830Z JUL 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9689
TREASURY DEPT WASHDC
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 TOKYO 11348

BRUSSELS FOR US MISSION EEC

PARIS FOR US MISSION OECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JULY 21-27, 1977

1. SUMMARY: JAPANESE INDUSTRIAL PRODUCTION RECOVERS A MODEST
0.5 PERCENT IN JUNE. SHIFTING ATTENTION BRIEFLY FROM THE
ECONOMIC POLICY DECISIONS EXPECTED IN THE LATTER PART OF
AUGUST, LONG-TERM INTEREST RATES ARE LOWERED AGAIN; AND THE
PROCESS OF PREPARING THE FY 1978 BUDGET GETS UNDER WAY. THE
GOVERNMENT ALSO PREPARES TO REVISE ITS PROJECTIONS FOR THE
FY 1977 CURRENT ACCOUNT BALANCE, IN OTHER
NEWS, DEPARTMENT STORE SALES FALL OFF IN JUNE; AND IT IS
REPORTED THAT JAPANESE BANKING AND TRUST COMPANIES
SIGNED AN AGREEMENT TO LEND YEN 20 BILLION (ABOUT
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PAGE 02 TOKYO 11348 01 OF 02 280925Z

\$75 MILLION) TO QUEBEC HYDRO. END SUMMARY.

2. JAPAN'S INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED,
INCREASED A MODERATE 0.5 PERCENT IN JUNE, BRINGING THE
INCREASE IN THE SECOND QUARTER OF CY 1977 ALSO TO THE
0.5 PERCENT MARK. A SHARP FALL IN SHIP DELIVERIES IN
JUNE MORE THAN ACCOUNTED FOR THE SMALL, 0.2 PERCENT,

DECLINE IN SHIPMENTS IN THE MONTH (EXCLUDING SHIPS, MINING AND MANUFACTURING SHIPMENTS ACTUALLY INCREASED 0.9 PERCENT). FOR THE SDCOND QUARTER, HOWEVER, SHIPMENTS WERE DOWN 16.6 PERCENT. THE INVENTORY TO SHIPMENTS RATIO ROSE AGAIN IN JUNE, BY 1.8 PERCENT, BUT THE INCREASE IN INVENTORIES IN THE QUARTER WAS ONLY 1.2 PERCENT. KEY NUMBERS, REPORTED IN MORE DETAIL IN TOKYO 11268, FOLLOW:
INDEX, S.A., 1970 EQUALS 100 (PERCENT CHANGE

FROM PRIOR MONTH IN PAREN)

	MIN. MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
APR	131.9 (0.9)	134.8 (-1.0)	124.6 (1.2)
MAY	128.9 (-2.3)	131.2 (-2.7)	130.2 (4.5)
JUNE	129.6 (0.5)	130.9 (-0.2)	132.6 (1.8)

(QUARTERLY)

	MIN. MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORIES
1977 I	129.4 (0.5)	134.4 (2.8)	168.7 (2.4)
1977 II	130.1 (0.5)	132.3 (-1.6)	170.8 (1.2)

3. WITH PRODUCTION GROWING AT THE SAME RATE IN THE SECOND QUARTER AS IN THE FIRST; WITH SHIPMENTS DECLINING AND INVENTORIES RISING; AND WITH A LOT OF RELEVANT NUMBERS NOT AVAILABLE; IT IS HAZARDOUS TO GUESS AT THIS POINT WHAT SORT OF GROSS NATIONAL PRODUCT NUMBERS THE GOVERNMENT WILL BE
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 11348 01 OF 02 280925Z

LOOKING AT IN THE PATTERN PART OF AUGUST WHEN IT REACHES DECISIONS ON THE NEED FOR FURTHER ACTIONS TO STIMULATE THE DOMESTIC ECONOMY AND ON ACTIONS TO DEAL WITH THE CURRENT ACCOUNT SURPLUS. THE JUNE FIGURES ARE NOT VERY CONCLUSIVE. HOWEVER, FROM EARLIER FIGURES ON THE CURRENT EXTERNAL BALANCE, IT SEEMS A REASONABLE ASSUMPTION THAT, PARTICULARLY AFTER PRICE INCREASES OF EXPORTS ARE SORTED OUT, THE EXTERNAL ACCOUNTS WILL (IN NATIONAL ACCOUNTS TERMS) HAVE SHIFTED FROM AN IMPORTANT SOURCE OF GROWTH IN THE FIRST QUARTER TO A MINOR, OR PERHAPS EVEN NEGATIVE, FACTOR IN THE SECOND QUARTER. THE SECOND QUARTER GROSS NATIONAL PRODUCT FIGURES SHOULD THUS GIVE A FAIRLY GOOD INDICATION WHERE THERE IS MORE STRENGTH IN THE DOMESTIC ECONOMY NOW THAN IN THE SECOND HALF OF LAST YEAR, WHEN, WITHOUT A BOOST FROM THE EXTERNAL ACCOUNTS, THE ECONOMY SLOWED TO A CRAWL.

4. WHILE AWAITING THE AUGUST DECISIONS, EFFORTS CONTINUE TO BRING DOWN LONG-TERM INTEREST RATES IN JAPAN. DURING THE PAST WEEK, THE MINISTRY OF FINANCE ANNOUNCED THAT THE COUPON RATE ON GOVERNMENT BONDS WILL BE CUT BY ABOUT 0.3 PERCENT, TO 6.9 PERCENT PER ANNUM, EFFECTIVE IN AUGUST. THE LONG-TERM PRIME RATE ON BANK DEBENTURES

IS ALSO TO BE LOWERED BY 0.3 PERCENT, TO 7.0 PERCENT, AND THAT ON INDUSTRIAL BONDS BY 0.5 PERCENT TO 7.10 PERCENT PER ANNUM. PRIME RATE ON LONG-TERM BANK LOANS IS ALSO SCHEDULED TO BE REDUCED IN AUGUST, FROM TY PRESENT 8.2 PERCENT TO 7.9 PERCENT. (THE YIELD TO SUBSCRIBERS ON THE BANK DEBENTURES IS THE SAME AS THE COUPON RATE; ON THE GOVERNMENT AND INDUSTRIAL BONDS, ISSK AT 99.5, THE YIELDS TO SUBSCRIBERS WILL FAL TO 6.984 (FROM 7.286) PERCENT FOR THE GOVERNMENTS, AND TO 7.185 (FROM 7.688) PERCENT FOR THE INDUSTRIAL BONDS.) THE FAL IN RATES SINCE THE BEGINNING OF YHYEAR THUS BECOMES INCREASINGLY SUBSTANTIAL. FOR EXAMPLE, THE CURRENT SUB 7 PERCENT YEILD ON TEN-YEAR GOVERNMENT BONDS COMPARES WITH ABOUT AN 8-1/4 PERCENT YIELD AT THE BEGINNING OF THE YEAR.

UNCLASSIFIED

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PAGE 04 TOKYO 11348 01 OF 02 280925Z

5. ALTHOUGH THE POSSIBILITY OF A SUPPLEMENTAL BUDGET CONTINUES TO BE THE MOST POPULAR FISCAL POLICY TOPICS, WORK IS ALSO GETTING UNDERWAY ON THE GOVERNMENT BUDGET FOR FISCAL YEAR 1978 (BEGINNING APRIL 1, 1978). THE PRIME MINISTER IS REPORTED TO E LINED UP BEHIND ZHFINANCE MINISTRY'S PLAN TO TAKE A RESTRICTIVE STAND ON INITIAL BUDGET REQUESTS BY VARIOUS MINISTRIES AND AGENCIES. THE FINANCE MINISTRY IS ALSO REPORTED

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PAGE 01 TOKYO 11348 02 OF 02 280931Z

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INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /109 W

-----111386 280940Z /10

P R 280830Z JUL 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 9690

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 2 OF 2 TOKYO 11348

TO BE DETERMINED TO HOLD THE INCREASE IN THE INITIAL
FISCAL 1978 BUDGET INCREASE AT (OR BELOW, ACCORDING TO

SOME REPORTS) THE RATE OF INCREASE IN THE INITIAL FISCAL
1977 BUDGET.

6. REPORTS HAVE BEGUN TO CIRCULATE THAT THE GOVERNMENT
WILL RE-EVALUATE ITS PROJECTIONS FOR JAPAN'S CURRENT
ACCOUNT BALANCE IN THE PRESENT FISCAL YEAR. MTI WAS
FIRST TO HIT ZHPRESS THIS PAST WEEK WITH ITS TENTATIVE ESTI-
MATES THAT THE TRADE SURPLUS WOULD DECLINE ONLY TO \$10.8
BILLION THIS FISCAL YEAR, FROM THE LAST FISCAL YEAR'S
\$11.1 BILLION, AND THAT THE CURRENT ACCOUNT SURPLUS WOULD
BE \$3 BILLION AS COMPARED WITH THE \$0.7 BILLION DEFICIT EARLIER
FORECAST BY THE GOVERNMENT FOLLOWING MITI. THE TRADE
COUNCIL (A GOVERNMENTAL ADVISORY BODY) MORE JUDICIOUSLY
REFRAINED FROM PREDICTING SPECIFIC FIGURES, ON THE GROUNDS
THAT THERE ARE TOO MANY UNCERTAINTIES AT PRESENT (DOMESTIC
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PAGE 02 TOKYO 11348 02 OF 02 280931Z

ECONOMIC TRENDS, EXCHANGE RATE, WORLD ECONOMIC SITUATION),
BUT DID ALLOW THAT THE TRADE SURPLUS WOULD PROBABLY FALL
IN A RANGE FROM \$8.7 BILLION TO \$12.1 BILLION (AS COMPARED
WITH \$7.3 BILLION IN THE EARLIER GOVERNMENT FORECAST). IN
ANYCASE, THE OFFICIAL FORECASTERS, THE ECONOMIC PLANNING
AGENCY, ARE NOW REPORTED PUBLICLY TO BE PREPARING TO REVISE
THEIR PROJECTIONS OF THE EXTERNAL ACCOUNTS, AWARE THAT IN
DOING SO THEY RISK BRINGING DOWN ON THEIR HEADS ANOTHER
ROUND OF INTERNATIONAL CRITICISM. ALTHOUGH THERE MAY
ALSO BE SOME REVISIONS IN THE DOMESTIC ACCOUNTS, IT IS
UNDERSTOOD THAT EPA'S MARCHING ORDERS ARE TO STICK TO THE
6.7 GROWTH TARGET/FORECAST.

7. DEPARTMENT STORE SALES, SEASONALLY ADJUSTED, FELL
3.1 PERCENT IN JUNE, A DECLINE WHICH BROUGHT THE SEASONALLY
ADJUSTED SALES INDEX (JEI 302) TO LOWEST LEVEL REGISTERED
THIS YEAR. HOWEVER, DESPITE JUNE DECLINE, DEPARTMENT STORE,
SALES INCREASED SLIGHTLY IN SECOND QUARTER AS A WHOLE,
ALTHOUGH SALES OF SOME ITEMS, ESPECIALLY CLOTHING, REMAINED
WEAK.

INDEX, SA	PERCENT CHANGE
(1970-100)	FROM PRIOR PERIOD

RECENT QUARTERS:

76 JULY-SEP	N	246.5	1.6
OCT-DEC		250.3	1.5

77 JAN-MAR	256.7	2.6
APR-JUNE	257.3	0.2

RECENT MONTHS:

77 MARCH	254.0	MIN 0.5
APRIL	258.8	1.9
MAY	260.6	0.7
JUNE	252.5	MIN 3.1

UNCLASSIFIED

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PAGE 03 TOKYO 11348 02 OF 02 280931Z

8. ACCORDING TO PRESS REPOTS, A CONSORTIUM OF JAPANESE TRUST AND BANKING COMPANIES HAS SIGNED AN AGREEMENT TO LEND YEN 20 BILLION (ABOUT \$75 MILLION) TO QUEBEC HYDRO. TERMS ARE REPORTED TO BE FOR REPAYMENT OVER FIFTEEN YEARS, WITH INTEREST RATE AT 8.5 PERCENT.
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
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